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INFO RHEHNSC/NATIONAL SECURITY COUNCIL WASHDC IMMEDIATE
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SUBJECT: GLOBAL ECONOMY - MORTGAGE CRISIS

Bush Nationalizes

Editorial in liberal Folha de S. Paulo (09/09) says: "Words matter and the U.S. government avoids admitting that when nationalizing the country's major mortgage companies. But it was exactly that when George Bush's administration upon ordering the acquisition of Fannie Mae and Freddie Mac.... It is probable that the brutal intervention of the U.S. government in the economy dissolves the risk of depression in a short term. However, it will not be able to avoid the profound discredit that falls on the rules of the game that promises not to socialize the damages of uncontrolled speculation."

Multibillionaire Help

Editorial in center-right O Estado de S. Paulo (09/09) comments: "Once again the U.S. government worked overtime on a Sunday to avoid aggravating a financial crisis... The projections may vary, but the majority of the specialists seem to agree on one point: there is no way to discard, at this moment, the hypothesis of new important losses in the financial sector. However, the insecurity should remain for some months. While uncertainty prevails, the banks will tend to be cautious in assigning credit... In moments like these, it doesn't work to talk about moral hazard because the willingness to avoid a major disaster prevails.... Sermons with respect to moral hazard are as old as inefficient. Ruling the globalized financial system may be very difficult and of dubious efficacy, but it makes more sense, in practical terms, than to trust in the market's capacity for self correction.

A Heterodox Operation to Save Giants

Editorial in economic newspaper Valor Economico (09/09) says: "Economists affiliated to the left rushed to point out yesterday the 'death of neo liberalism' with the U.S. government's decision to bailout mortgage giants Fannie Mae and Freddie Mac... What demoralized along with the virtual nationalization of half of the mortgage market decreed on a Sunday before the opening of Asian stock exchanges, was the so called fundamentalism of the market, which rejects as heresy government regulatory intervention.... Both candidates to the U.S. presidency Barack Obama and John McCain, supported the decision to transfer taxpayer money to save the mortgage market. Both the Republican and the Democratic Parties have, after all, fingerprints on the crisis... The growing involvement of the U.S. taxpayers in the cost of the credit crisis only reveals that the surprises are not yet done, and has no set time period to finish."
White